

HARMONY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Basic Financial Statements		24-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Special Revenue Funds, Student Activity Accounts	3	40
Fiduciary Fund, Private Purpose Trust Accounts:		
Combining Balance Sheet	4	41
Schedule of Changes in Private Purpose Trust Fund - Scholarship Accounts	5	42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		44-45
Schedule of Findings		46-51

Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Burton Mills	President	2006
Dennis Grossman	Vice President	2006
Karen Schlicher	Board Member	2007
David Hellwig	Board Member	2008
Pam Neeley	Board Member	2008
Board of Education (After September 2006 Election)		
Dennis Grossman	President	2009
Burton Mills	Vice President	2009
Karen Schlicher	Board Member	2007
David Hellwig	Board Member	2008
Pam Neeley	Board Member (Resigned)	2008
Steve Adams	Board Member (Appointed)	2007
School Officials		
Dr. Kelley Rogers	Superintendent (Resigned July 2006)	2007
Dr. Timothy Peterson	Superintendent (Appointed August 2006)	2007
Karen Ruppert	Business Manager/ District Secretary	2007
Iris Kerr	District Treasurer	2007
Crystal Cronk	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Harmony Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Harmony Community School District, Bonaparte, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

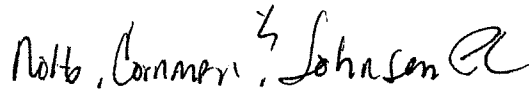
In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2008 on our consideration of the Harmony Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harmony Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein). We expressed a qualified opinion for the year ended June 30, 2004 for the lack of Capital Assets. We expressed unqualified opinions for the years ended June 30, 2005 and June 30, 2006. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harmony Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,490,690 in fiscal 2006 to \$3,771,161 in fiscal 2007, while General Fund expenditures decreased from \$3,854,928 in fiscal 2006 to \$3,778,277 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from a deficit \$340,235 in fiscal 2006 to a deficit balance of \$392,352 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in local tax and tuition revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The expenditures were greater than the revenues, resulting in the decrease in the District's General Fund.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harmony Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harmony Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harmony Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Harmony Community School District Annual Financial Report

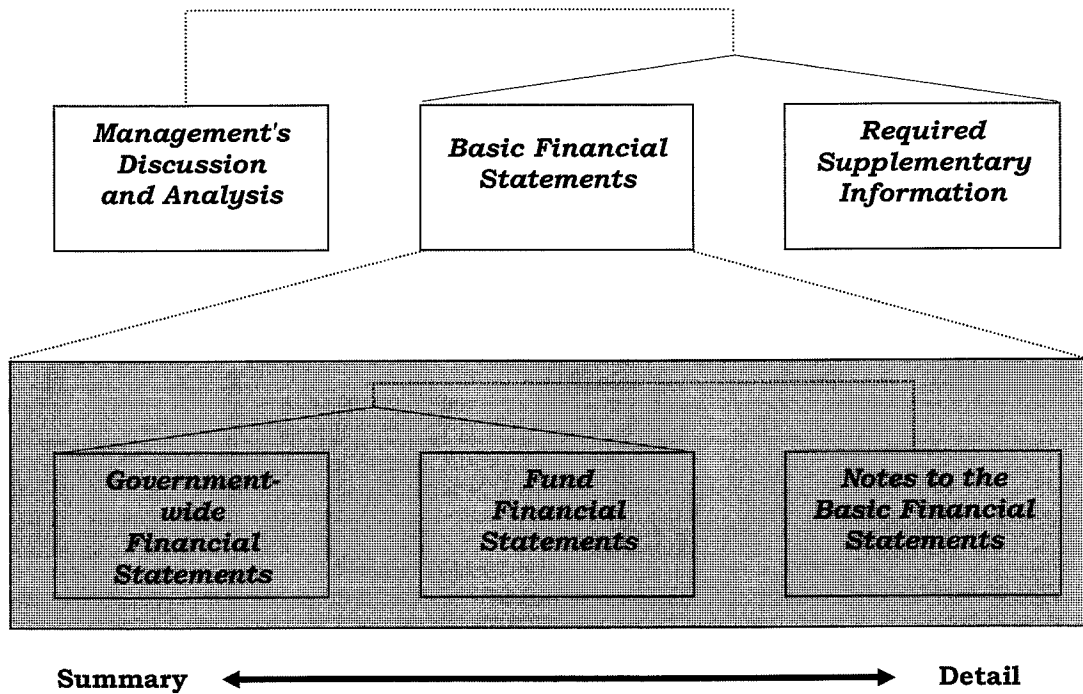


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 3,540,505	3,230,261	42,141	15,635	3,582,646	3,245,896	10.4%
Capital assets	4,899,808	5,091,969	20,238	6,446	4,920,046	5,098,415	-3.5%
Total assets	8,440,313	8,322,230	62,379	22,081	8,502,692	8,344,311	1.9%
Long-term obligations	2,613,439	2,757,252	0	0	2,613,439	2,757,252	-5.2%
Other liabilities	3,404,012	3,228,295	24,522	0	3,428,534	3,228,295	6.2%
Total liabilities	6,017,451	5,985,547	24,522	0	6,041,973	5,985,547	0.9%
Net assets:							
Invested in capital assets, net of related debt	2,330,913	2,396,184	20,238	6,446	2,351,151	2,402,630	-2.1%
Restricted	740,938	437,382	0	0	740,938	437,382	69.4%
Unrestricted	(648,989)	(496,883)	17,619	15,635	(631,370)	(481,248)	-31.2%
Total net assets	\$ 2,422,862	2,336,683	37,857	22,081	2,460,719	2,358,764	4.3%

The District's combined net assets increased by \$101,955 or 4.3% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$303,556 or 69.4% over the prior year. This increase is due primarily to the increase in fund balance in the Capital Project Fund.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$150,122 or 31.2%. This decrease is primarily due to the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 330,817	329,343	63,621	67,719	394,438	397,062	-0.7%
Operating grants and contributions and restricted interest	489,779	457,874	88,099	85,596	577,878	543,470	6.3%
Capital grants and contributions and restricted interest	82,729	349,333	0	0	82,729	349,333	-76.3%
General revenues:							
Local tax	1,474,355	1,485,613	0	0	1,474,355	1,485,613	-0.8%
Local option sales and service tax	194,148	270,173	0	0	194,148	270,173	-28.1%
Unrestricted state grants	1,823,526	1,716,911	0	0	1,823,526	1,716,911	6.2%
Other	109,006	121,342	317	184	109,323	121,526	-10.0%
Transfers	(65,125)	(60,545)	52,270	60,545	(12,855)	0	-100.0%
Total revenues	4,439,235	4,670,044	204,307	214,044	4,643,542	4,884,088	-4.9%
Program expenses:							
Governmental activities:							
Instruction	2,540,775	2,705,657	0	0	2,540,775	2,705,657	-6.1%
Support services	1,396,636	1,365,816	0	0	1,396,636	1,365,816	2.3%
Non-instructional programs	0	0	188,531	215,006	188,531	215,006	-12.3%
Other expenses	415,645	643,752	0	0	415,645	643,752	-35.4%
Total expenses	4,353,056	4,715,225	188,531	215,006	4,541,587	4,930,231	-7.9%
Change in net assets	86,179	(45,181)	15,776	(962)	101,955	(46,143)	321.0%
Net assets beginning of year	2,336,683	2,381,864	22,081	23,043	2,358,764	2,404,907	1.9%
Net assets end of year	\$ 2,422,862	2,336,683	37,857	22,081	2,460,719	2,358,764	4.3%

In fiscal 2007, local tax, local option sales and services tax and unrestricted state grants account for 78.66% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 74.26% of the revenue from business-type activities.

The District's total revenues were \$4,643,542 of which \$4,439,235 was for governmental activities and \$204,307 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 4.9% decrease in revenues and a 7.9% decrease in expenses. Unrestricted state grants increased by \$106,615 to fund increases in expenditures. The decreases in expenses were related to a decrease in instruction expenses.

Governmental Activities

Revenues for governmental activities were \$4,439,235 and expenses were \$4,353,056.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,540,775	2,705,657	-6.09%	1,860,001	2,052,347	-9.37%
Support services	1,396,636	1,365,816	2.26%	1,396,117	1,365,816	2.22%
Other expenses	415,645	643,752	-35.43%	193,613	160,512	20.62%
Totals	<u>\$ 4,353,056</u>	<u>4,715,225</u>	<u>-7.68%</u>	<u>3,449,731</u>	<u>3,578,675</u>	<u>-3.60%</u>

- The cost financed by users of the District's programs was \$330,817.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$572,508.
- The net cost of governmental activities was financed with \$1,474,355 in property tax, \$194,148 in local option sales tax, \$1,823,526 in unrestricted state grants, \$74,888 in interest income and \$34,118 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$204,307 and expenses were \$188,531. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harmony Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund a deficit balance of \$7,392 compared to last year's ending fund balances of a deficit \$131,841. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Increases in funding from local tax, tuition and state and federal sources during the year resulted in an increase in revenues. The General Fund expenditures were more than the revenues received ensuring the decrease in the financial position of the District.
- The Capital Projects fund balance increased during the current year, from \$292,861 to a balance of \$544,738. This was due in part because the fund received \$194,148 in local option sales and service tax money with no fund expenditures during fiscal 2007.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from \$22,081 at June 30, 2006 to \$37,857 at June 30, 2007, representing an increase of 71.5%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$223,230 more than budgeted revenues, a variance of 5.0%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, support services and other expenditures functions due to increased expenditures without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$4,920,046, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$202,463.

The original cost of the District's capital assets was \$8,604,277. Governmental funds account for \$8,528,087 with the remainder of \$76,190 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. This decrease resulted from the deletion of a fully depreciated bus and depreciation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.0%
Buildings	4,715,945	4,842,824	0	0	4,715,945	4,842,824	-2.6%
Land improvements	20,139	21,860	0	0	20,139	21,860	-7.9%
Machinery and equipment	106,724	170,285	20,238	6,446	126,962	176,731	-28.2%
Total	\$ 4,899,808	5,091,969	20,238	6,446	4,920,046	5,098,415	-3.5%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$2,613,439 in general obligation bonds and other long-term debt outstanding. This represents a 5.2% decrease from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds payable of \$2,560,000 at June 30, 2007.

The District had an outstanding suburban lease payable from the General Fund of \$8,895 at June 30, 2007.

The District had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$44,544 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,560,000	2,685,000	-4.7%
Suburban lease	8,895	18,084	-50.8%
Early retirement	44,544	54,168	-17.8%
Total	\$ 2,613,439	2,757,252	-5.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Ruppert, District Board Secretary, Harmony Community School District, 601 First Street, Harmony, Iowa, 52620.

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,415,002	0	1,415,002
Other	264,213	39,077	303,290
Receivables:			
Property tax:			
Delinquent	34,433	0	34,433
Succeeding year	1,464,431	0	1,464,431
Income surtax	154,209	0	154,209
Interfund	24,522	0	24,522
Accounts	963	0	963
Accrued ISCAP interest(Note 5)	49,852	0	49,852
Due from other governments	132,880	0	132,880
Inventories	0	3,064	3,064
Capital assets, net of accumulated depreciation(Note 6)	4,899,808	20,238	4,920,046
TOTAL ASSETS	8,440,313	62,379	8,502,692
LIABILITIES			
Interfund payable	0	24,522	24,522
Accounts payable	76,919	0	76,919
Salaries and benefits payable	380,190	0	380,190
Interest payable	10,324	0	10,324
ISCAP warrants payable(Note 5)	1,418,000	0	1,418,000
ISCAP accrued interest payable(Note 5)	46,903	0	46,903
ISCAP premiums payable	7,245	0	7,245
Deferred revenue:			
Succeeding year property tax	1,464,431	0	1,464,431
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	135,000	0	135,000
Early retirement payable	9,624	0	9,624
Suburban lease payable	8,895	0	8,895
Portion due after one year:			
General obligation bonds payable	2,425,000	0	2,425,000
Early retirement payable	34,920	0	34,920
TOTAL LIABILITIES	6,017,451	24,522	6,041,973
NET ASSETS			
Invested in capital assets, net of related debt	2,330,913	20,238	2,351,151
Restricted for:			
Talented and gifted	89,802	0	89,802
Beginning teacher mentoring	2,794		
Salary improvement program	4,934	0	4,934
Additional teacher contract day	2,129	0	2,129
Additional salary, professional development	13,125	0	13,125
Market factor	3,354	0	3,354
Capital projects	544,738	0	544,738
Other special revenue purposes	80,062	0	80,062
Unrestricted	(648,989)	17,619	(628,576)
TOTAL NET ASSETS	\$ 2,422,862	37,857	2,460,719

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Contributions and Restricted Interest	Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,716,818	176,708	324,389	0	(1,215,721)	0	(1,215,721)
Special instruction	377,524	0	25,568	0	(351,956)	0	(351,956)
Other instruction	446,433	154,109	0	0	(292,324)	0	(292,324)
	2,540,775	330,817	349,957	0	(1,860,001)	0	(1,860,001)
Support services:							
Student services	41,190	0	0	0	(41,190)	0	(41,190)
Instructional staff services	109,752	0	0	0	(109,752)	0	(109,752)
Administration services	570,906	0	0	0	(570,906)	0	(570,906)
Operation and maintenance of plant services	380,187	0	0	0	(380,187)	0	(380,187)
Transportation services	294,601	0	519	0	(294,082)	0	(294,082)
	1,396,636	0	519	0	(1,396,117)	0	(1,396,117)
Other expenditures:							
Facilities acquisitions	11,493	0	0	82,729	71,236	0	71,236
Long-term debt interest	130,737	0	0	0	(130,737)	0	(130,737)
AEA flowthrough	139,303	0	139,303	0	0	0	0
Depreciation(unallocated)*	134,112	0	0	0	(134,112)	0	(134,112)
	415,645	0	139,303	82,729	(193,613)	0	(193,613)
Total governmental activities	4,353,056	330,817	489,779	82,729	(3,449,731)	0	(3,449,731)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	188,531	63,621	88,099	0	0	(36,811)	(36,811)
Total business-type activities	188,531	63,621	88,099	0	0	(36,811)	(36,811)
Total	\$ 4,541,587	394,438	577,878	82,729	(3,449,731)	(36,811)	(3,486,542)
General Revenues & Transfers:							
General revenues:							
Property tax levied for:							
General purposes					\$ 1,276,627	0	1,276,627
Debt services					128,638	0	128,638
Capital outlay					69,090	0	69,090
Local option sales and services					194,148	0	194,148
Unrestricted state grants					1,823,526	0	1,823,526
Unrestricted investment earnings					74,888	317	75,205
Other general revenues					33,162	0	33,162
Gain on sale of equipment					956	0	956
Transfers					(65,125)	52,270	(12,855)
Total general revenues & transfers					3,535,910	52,587	3,588,497
Changes in net assets					86,179	15,776	101,955
Net assets beginning of year					2,336,683	22,081	2,358,764
Net assets end of year					\$ 2,422,862	37,857	2,460,719

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 1,415,002	0	0	1,415,002
Other	(75,223)	379,395	(39,959)	264,213
Receivables:				
Property tax				
Delinquent	26,940	0	7,493	34,433
Succeeding year	1,169,446	0	294,985	1,464,431
Income surtax	154,209	0	0	154,209
Interfund	32,242	141,414	18,000	191,656
Accounts	633	0	330	963
Accrued ISCAP interest(Note 5)	49,852	0	0	49,852
Due from other governments	47,743	85,137	0	132,880
TOTAL ASSETS	\$ 2,820,844	605,946	280,849	3,707,639
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 18,000	6,737	142,397	167,134
Accounts payable	19,203	54,471	3,245	76,919
Salaries and benefits payable	380,190	0	0	380,190
ISCAP warrants payable(Note 5)	1,418,000	0	0	1,418,000
ISCAP accrued interest payable(Note 5)	46,903	0	0	46,903
ISCAP premiums payable	7,245	0	0	7,245
Deferred revenue:				
Succeeding year property tax	1,169,446	0	294,985	1,464,431
Income surtax	154,209	0	0	154,209
Total liabilities	3,213,196	61,208	440,627	3,715,031
Fund balances:				
Reserved for:				
Talented and gifted	89,802	0	0	89,802
Beginning teacher mentoring	2,794	0	0	2,794
Salary improvement program	4,934	0	0	4,934
Additional teacher contract day	2,129	0	0	2,129
Additional salary, professional development	13,125	0	0	13,125
Market factor	3,354	0	0	3,354
Unreserved:				
Undesignated	(508,490)	544,738	(159,778)	(123,530)
Total fund balances	(392,352)	544,738	(159,778)	(7,392)
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,820,844	605,946	280,849	3,707,639

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ (7,392)

*Amounts reported for governmental activities in the
 statement of net assets are different because:*

Capital assets used in governmental activities are not
 financial resources and, therefore, are not reported as 4,899,808
 assets in the governmental funds.

Accrued interest payable in long-term liabilities is not
 due and payable in the current period and, therefore,
 is not reported as a liability in the governmental funds. (10,324)

Accounts receivable income surtax, are not yet available
 to finance expenditures of the current fiscal period. 154,209

Long-term liabilities, including bonds payable, suburban
 lease payable and early retirement payable are not due
 and payable in the current period and, therefore, are
 not reported as liabilities in the governmental funds. (2,613,439)

Net assets of governmental activities (page 13) \$ 2,422,862

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,181,825	194,148	282,956	1,658,929
Tuition	163,993	0	0	163,993
Other	112,349	0	162,525	274,874
State sources	2,162,011	57,729	311	2,220,051
Federal sources	150,983	0	25,000	175,983
Total revenues	3,771,161	251,877	470,792	4,493,830
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,688,700	0	0	1,688,700
Special instruction	377,524	0	0	377,524
Other instruction	317,076	0	133,797	450,873
	2,383,300	0	133,797	2,517,097
Support services:				
Student services	41,190	0	0	41,190
Instructional staff services	109,752	0	0	109,752
Administration services	531,254	0	34,239	565,493
Operation and maintenance of plant services	321,678	0	75,635	397,313
Transportation services	251,800	0	16,499	268,299
	1,255,674	0	126,373	1,382,047
Other expenditures:				
Facilities acquisitions	0	0	18,461	18,461
Long-term debt:				
Principal	0	0	134,189	134,189
Interest and fiscal charges	0	0	131,241	131,241
AEA flowthrough	139,303	0	0	139,303
	139,303	0	283,891	423,194
Total expenditures	3,778,277	0	544,061	4,322,338
Excess(deficiency) of revenues over(under) expenditures	(7,116)	251,877	(73,269)	171,492
Other financing sources(uses):				
Transfer in	0	0	10,813	10,813
Transfer out	(45,957)	0	(12,855)	(58,812)
Sale of equipment	956	0	0	956
Total other financing sources(uses)	(45,001)	0	(2,042)	(47,043)
Net change in fund balances	(52,117)	251,877	(75,311)	124,449
Fund balance beginning of year	(340,235)	292,861	(84,467)	(131,841)
Fund balance end of year	\$ (392,352)	544,738	(159,778)	(7,392)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 124,449

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts for capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 6,968	
Depreciation expense	(199,129)	(192,161)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 134,189

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 504

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 9,574

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	9,624
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Changes in net assets of governmental activities (page 14) \$ 86,179

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 39,077
Inventories	3,064
Capital assets, net of accumulated depreciation(Note 6)	<u>20,238</u>
TOTAL ASSETS	<u>62,379</u>
LIABILITIES	
Interfund payable	<u>24,522</u>
NET ASSETS	
Invested in capital assets	20,238
Unrestricted	<u>17,619</u>
TOTAL NET ASSETS	<u>\$ 37,857</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 63,621
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	91,743
Benefits	11,879
Services	2,742
Supplies	78,833
Depreciation	3,334
TOTAL OPERATING EXPENSES	<u>188,531</u>
OPERATING LOSS	<u>(124,910)</u>
NON-OPERATING REVENUES:	
Interest income	317
State sources	2,326
Federal sources	85,773
TOTAL NON-OPERATING REVENUES	<u>88,416</u>
Change in net assets before other financing sources	(36,494)
OTHER FINANCING SOURCES:	
Transfer in	35,144
Contributed capital	17,126
TOTAL OTHER FINANCING SOURCES	<u>52,270</u>
Change in net assets	15,776
Net assets at beginning of year	<u>22,081</u>
Net assets end of year	<u>\$ 37,857</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 64,598
Cash payments to employees for services	(103,622)
Cash payments to suppliers for goods or services	(68,896)
Net cash used in operating activities	<u>(107,920)</u>
Cash flows from non-capital financing activities:	
Transfer in from the General Fund	35,144
Borrowings from the General Fund	24,522
State grants received	2,326
Federal grants received	71,037
Net cash provided by non-capital financing activities	<u>133,029</u>
Cash flows from investing activities:	
Interest on investments	<u>317</u>
Net increase in cash and cash equivalents	25,426
Cash and cash equivalents at beginning of year	<u>13,651</u>
Cash and cash equivalents at end of year	<u>\$ 39,077</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (124,910)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,736
Depreciation	3,334
Increase in inventories	(2,057)
Decrease in accounts receivables	977
Net cash used in operating activities	<u>\$ (107,920)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 39,077</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2007, the District received Federal commodities valued at \$14,736.	
During the year ended June 30, 2007, the Nutrition Fund received contributed capital from the Physical Plant and Equipment Levy Fund of \$17,126.	

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
ASSETS		
Cash and pooled investments	\$	361,849
LIABILITIES		<u>0</u>
NET ASSETS		
Reserved for scholarships	\$	346,180
Unreserved		15,669
TOTAL NET ASSETS	\$	<u>361,849</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
ADDITIONS:	
Interest income	\$ 16,660
Contributions	154
TOTAL ADDITIONS	<u>16,814</u>
DEDUCTIONS:	
Scholarships awarded	<u>14,000</u>
Change in net assets before other financing sources	2,814
OTHER FINANCING SOURCES	
Transfer in	<u>12,855</u>
Change in net assets	15,669
Net assets beginning of year	<u>346,180</u>
Net assets end of year	<u>\$ 361,849</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Harmony Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Bonaparte, Hillsboro and Farmington, Iowa, and the predominate agricultural territory in Henry, Van Buren and Lee Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harmony Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harmony Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Henry, Van Buren and Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed

from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax

accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include machinery and equipment, are reported in the applicable business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the instruction, support services and other expenditures functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	General	\$ 18,000
General	Special Revenue, Physical Plant and Equipment Levy	608
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	141,414
General	Capital Projects	6,737
General	Debt Service	375
General	Nutrition	24,522
Total		<u>\$ 191,656</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Private Purpose Trust	Support Trust	\$ 12,855
School Nutrition	General	35,144
Debt Service	General	10,813
Total		<u>\$ 58,812</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 0	32,079	0	31,798
2006-07B	1/26/2007	1/25/2008	779,008	17,583	781,000	14,943
2007-08A	6/28/2007	6/27/2008	635,994	190	637,000	162
Total			\$ 1,415,002	49,852	1,418,000	46,903

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	420,000	420,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

Business-type activities:

Machinery and equipment

Less accumulated depreciation

Business-type activities capital assets, net

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
\$	59,613	17,126	549	76,190
	53,167	3,334	549	55,952
\$	6,446	13,792	0	20,238

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	0	0	57,000
Total capital assets not being depreciated	57,000	0	0	57,000
Capital assets being depreciated:				
Buildings	6,805,846	5,512	0	6,811,358
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,377,480	1,456	31,607	1,347,329
Total capital assets being depreciated	8,495,726	6,968	31,607	8,471,087
Less accumulated depreciation for:				
Buildings	1,963,022	132,391	0	2,095,413
Land improvements	290,540	1,721	0	292,261
Machinery and equipment	1,207,195	65,017	31,607	1,240,605
Total accumulated depreciation	3,460,757	199,129	31,607	3,628,279
Total capital assets being depreciated, net	5,034,969	(192,161)	0	4,842,808
Governmental activities capital assets, net	\$ 5,091,969	(192,161)	0	4,899,808

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 33,302
Support services:	
Administration services	5,413
Transportation	26,302
	65,017
Unallocated depreciation	134,112
Total governmental activities depreciation expense	\$ 199,129
Business-type activities:	
Food services	\$ 3,334

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,685,000	0	125,000	2,560,000	135,000
Suburban lease	18,084	0	9,189	8,895	8,895
Early retirement	54,168	0	9,624	44,544	9,624
Total	\$ 2,757,252	0	143,813	2,613,439	153,519

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bonded debt is as follows:

Year	Bond issue March 24, 2003				
Ending	Interest				
June 30,	Rate	Principal	Interest	Total	
2008	4.63	% \$ 135,000	123,636	258,636	
2009	4.63	140,000	117,932	257,932	
2010	4.63	145,000	110,918	255,918	
2011	4.63	155,000	104,211	259,211	
2012	4.63	160,000	97,043	257,043	
2013	4.70	165,000	89,643	254,643	
2014	4.75	175,000	81,888	256,888	
2015	4.88	185,000	73,575	258,575	
2016	4.88	195,000	64,556	259,556	
2017	4.90	200,000	55,050	255,050	
2018	5.00	210,000	45,250	255,250	
2019	5.00	220,000	34,750	254,750	
2020	5.00	230,000	23,750	253,750	
2021	5.00	245,000	12,250	257,250	
Total		\$ 2,560,000	1,034,452	3,594,452	

Suburban Lease Payable

Details of the District's June 30, 2007 indebtedness from the lease of a new suburban, which is paid from the General Fund, is as follows:

Year	Lease dated May 24, 2005				
Ending	Interest				
June 30,	Rate	Principal	Interest	Total	
2008	5.75	% \$ 8,895	255	9,149	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to a percentage of the employee's base salary less any other additional pay and subject to a maximum of \$20,000 for certified staff and \$10,000 for non certified staff. Early retirement benefits paid during the year ended June 30, 2007, totaled \$9,624.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the year ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$133,072, \$134,543 and \$128,724, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$108,524.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Harmony Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$139,303 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance/Net Assets

The Special Revenue, Physical Plant and Equipment Levy Fund had a deficit fund balance of \$38,116 at June 30, 2007. The Debt Service Fund had a deficit fund balance of \$216,961 at June 30, 2007. The General Fund had a deficit unreserved undesignated fund balance of \$508,490. The District also had a deficit unrestricted net assets in the governmental activities of \$648,989.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the instruction, support services and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,097,796	63,938	2,161,734	1,996,870	1,996,870	164,864
State sources	2,220,051	2,326	2,222,377	2,167,767	2,167,767	54,610
Federal sources	175,983	85,773	261,756	258,000	258,000	3,756
Total revenues	4,493,830	152,037	4,645,867	4,422,637	4,422,637	223,230
Expenditures:						
Instruction	2,517,097	0	2,517,097	2,406,818	2,406,818	(110,279)
Support services	1,382,047	0	1,382,047	1,352,000	1,352,000	(30,047)
Non-instructional programs	0	188,531	188,531	231,743	231,743	43,212
Other expenditures	423,194	0	423,194	419,977	419,977	(3,217)
Total expenditures	4,322,338	188,531	4,510,869	4,410,538	4,410,538	(100,331)
Excess(Deficiency) of revenues over(under) expenditures	171,492	(36,494)	134,998	12,099	12,099	122,899
Other financing sources(uses), net	(47,043)	52,270	5,227	300	300	5,827
Excess of revenues and other financing sources(uses) over expenditures	124,449	15,776	140,225	12,399	12,399	128,726
Balance beginning of year	(131,841)	22,081	(109,760)	581,242	581,242	(691,002)
Balance end of year	\$ (7,392)	37,857	30,465	593,641	593,641	(562,276)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the Instruction, support services and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Nonmajor Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	\$ 12,989	83,099	83,962	180,050	(220,009)	(39,959)
Receivables:						
Property tax:						
Current year delinquent	2,248	0	1,822	4,070	3,423	7,493
Succeeding year property tax	91,000	0	70,349	161,349	133,636	294,985
Interfund	0	0	18,000	18,000	0	18,000
Accounts	0	208	122	330	0	330
TOTAL ASSETS	\$ 106,237	83,307	174,255	363,799	(82,950)	280,849
LIABILITIES AND FUND BALANCES						
Liabilities:						
Interfund payable	\$ 0	0	142,022	142,022	375	142,397
Accounts payable	0	3,245	0	3,245	0	3,245
Deferred revenue:						
Succeeding year property tax	91,000	0	70,349	161,349	133,636	294,985
Total liabilities	91,000	3,245	212,371	306,616	134,011	440,627
Unreserved fund balances	15,237	80,062	(38,116)	57,183	(216,961)	(159,778)
TOTAL LIABILITIES AND FUND BALANCES	\$ 106,237	83,307	174,255	363,799	(82,950)	280,849

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds						Total
	Manage-	Student	Physical	Expendable	Total	Debt	Other
	ment	Activity	Plant and	Trust	Special	Service	Nonmajor
	Levy		Equipment		Revenue		Governmental
			Levy		Funds		Funds
REVENUES:							
Local sources:							
Local tax	\$ 85,228	0	69,090	0	154,318	128,638	282,956
Other	6,980	154,109	1,436	0	162,525	0	162,525
State sources	93	0	76	0	169	142	311
Federal sources	0	0	25,000	0	25,000	0	25,000
TOTAL REVENUES	92,301	154,109	95,602	0	342,012	128,780	470,792
EXPENDITURES:							
Current:							
Instruction:							
Other instruction	0	133,797	0	0	133,797	0	133,797
Support services:							
Administration services	34,239	0	0	0	34,239	0	34,239
Operation and maintenance							
of plant services	33,508	0	42,127	0	75,635	0	75,635
Transportation services	16,499	0	0	0	16,499	0	16,499
Other expenditures:							
Facilities acquisitions	0	0	18,461	0	18,461	0	18,461
Long-term debt:							
Principal	0	0	0	0	0	134,189	134,189
Interest and fiscal charges	0	0	0	0	0	131,241	131,241
TOTAL EXPENDITURES	84,246	133,797	60,588	0	278,631	265,430	544,061
Excess(deficiency) of revenues							
over(under) expenditures	8,055	20,312	35,014	0	63,381	(136,650)	(73,269)
Other financing sources(uses):							
Transfer in	0	0	0	0	0	10,813	10,813
Transfer out	0	0	0	(12,855)	(12,855)	0	(12,855)
Total other financing sources(uses)	0	0	0	(12,855)	(12,855)	10,813	(2,042)
Net change in fund balances	8,055	20,312	35,014	(12,855)	50,526	(125,837)	(75,311)
Fund balance beginning of year	7,182	59,750	(73,130)	12,855	6,657	(91,124)	(84,467)
Fund balance end of year	\$ 15,237	80,062	(38,116)	0	57,183	(216,961)	(159,778)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 13,455	21,363	17,878	16,940
Middle School	12,077	9,146	11,076	10,147
High School	34,218	123,600	104,843	52,975
Total	\$ 59,750	154,109	133,797	80,062

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2007

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 82,768	279,081	361,849
LIABILITIES	0	0	0
NET ASSETS			
Reserved for scholarships	82,768	263,412	346,180
Unreserved	0	15,669	15,669
TOTAL NET ASSETS	\$ 82,768	279,081	361,849

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2007

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
REVENUES			
Interest	\$ 2,315	14,345	16,660
Donations	154	0	154
TOTAL REVENUES	2,469	14,345	16,814
EXPENDITURES			
Scholarships awarded	5,000	9,000	14,000
Excess(deficiency) of revenues over(under) expenditures	(2,531)	5,345	2,814
OTHER FINANCING SOURCES:			
Transfer in	2,531	10,324	12,855
Net change in fund balance	0	15,669	15,669
Balance beginning of year	82,768	263,412	346,180
Balance end of year	\$ 82,768	279,081	361,849

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 1,658,929	1,756,668	1,466,940	1,490,203
Tuition	163,993	132,135	113,193	89,798
Other	274,874	418,550	192,263	168,316
State sources	2,220,051	2,031,504	2,038,771	2,103,017
Federal sources	175,983	392,614	429,329	803,061
Total	<u>\$ 4,493,830</u>	<u>4,731,471</u>	<u>4,240,496</u>	<u>4,654,395</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,688,700	1,642,212	1,707,966	1,621,297
Special instruction	377,524	474,025	485,582	441,702
Other instruction	450,873	540,649	377,897	364,298
Support services:				
Student services	41,190	60,444	55,240	57,131
Instructional staff services	109,752	115,268	39,800	90,565
Administration services	565,493	518,482	499,173	474,511
Operation and maintenance of plant services	397,313	352,742	376,651	315,636
Transportation services	268,299	280,853	281,304	282,624
Non-instructional programs	0	0	80,108	59,276
Other expenditures:				
Facilities acquisitions	18,461	562,759	307,755	1,156,803
Long-term debt:				
Principal	134,189	128,683	115,702	110,000
Interest and fiscal charges	131,241	136,665	140,816	145,674
AEA flow-through	139,303	133,907	135,157	138,777
Total	<u>\$ 4,322,338</u>	<u>4,946,689</u>	<u>4,603,151</u>	<u>5,258,294</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Harmony Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Harmony Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 22, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmony Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harmony Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harmony Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harmony Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harmony Community School District's financial statements that is more than inconsequential will not be prevented or detected by Harmony Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Harmony Community School District's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

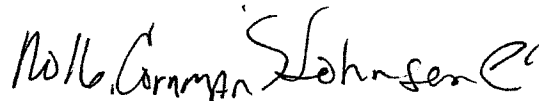
As part of obtaining reasonable assurance about whether Harmony Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harmony Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Harmony Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harmony Community School District and other parties to whom Harmony Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harmony Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2008

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Free and Reduced Lunch Applications - We noted during our audit that one of the free and reduced lunch applications in our testing was marked as reduced, but actually should have been marked as free.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will contact the Department of Education to correct the necessary reports. In the future, after we have the primary person fill out the form, Gary Carlson will double check the application for errors. If we find that an error has occurred after the form has been processed, we will contact the Department of Education to correct the necessary reports.

Conclusion - Response accepted.

- I-C-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - The District will have the non-certified staff coaches and sponsors keep track of the hours they have worked.

Conclusion - Response accepted.

I-D-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). Specific examples of instances of questioned items and recommendations are as follows:

A monetary award from Wal-Mart for Teacher of the Year was recorded in the Student Activity Fund. Subsequent expenditures from this account include instructional supplies for the winning teacher's classroom. Moneys intended or used for the purchase of instructional supplies should be receipted and expended from the General Fund.

There is a Library Fund account at the High School and Friends of the Library account at the Elementary School. The receipts and expenditures from these accounts appear to be instructional in nature; therefore, the remaining money in these accounts should be transferred to the General Fund.

There is a Class of 2004 and a Class of 2006 account. Upon graduation old class accounts should be redistributed to other accounts within the Student Activity Fund or used as starting cash for future class accounts.

The Lamination and Nursing accounts have no activity during the past two years. These accounts should be reviewed and determined if needed and be closed to other accounts or transferred out of the Student Activity Fund.

We noted the purchase of playground equipment from the Activity Fund. Moneys intended for the subsequent purchase of playground equipment should not be handled in the Activity Fund. Purchases of playground equipment are more appropriate from the General Fund or the PPEL Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will review and monitor receipts and expenditures from the Student Activity Fund more closely in the future to avoid noncompliance.

Money intended or used for the purchase of instructional supplies will be receipted and expended from the General Fund.

The remaining monies in the Library Fund account and the Friends of the Library account will be transferred to the General Fund.

The Class of 2004 and the Class of 2006 accounts will be redistributed to other accounts within the Student Activity Fund. In the future, graduated class accounts will be redistributed to other accounts within the Student Activity Fund.
The Lamination and Nursing accounts will be redistributed to other accounts in the Student Activity Fund.

Future purchases of playground equipment will be made through the General Fund or the PPEL Fund. Monies intended for the purchase of playground equipment will be receipted into the General Fund or PPEL Fund.

Conclusion - Response accepted.

I-E-07 Gate Admissions - We noted that pre-numbered tickets were being used for performances and athletic events held on District grounds, but personnel responsible for gate collections were not performing reconciliations of pre-numbered tickets to the actual gate receipts.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.
- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to either take to the night deposit at the bank or lock the event proceeds in the District's vault until a deposit can be made the following business day.
- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - We will adopt a board policy using the guidelines supplied by the auditors that addresses internal control procedures for handling cash for all performances and athletic events.

Conclusion - Response accepted.

- I-F-07 School Accounting Software Integration - We noted during our audit that the Special Revenue, Student Activity Fund accounts were not integrated with the general ledger accounting system. The District may maintain subsidiary records for student activities, but all official records of the Student Activity Fund shall be maintained on the District's Uniform Financial Accounting system. If subsidiary records are maintained, these records must be reconciled to the official records monthly.

Recommendation - The District should contact the DataTeam software support and integrate the accounting for individual student activity accounts. Due to the certified annual report upload requirements, the District should maintain all accounting records for the District on one accounting system.

Response - All official records of the Student Activity Fund shall be integrated and maintained on the District's Uniform Financial Accounting system.

Conclusion - Response accepted.

- I-G-07 Interfund Loans - We noted during our audit that the District has interfund payables/receivables which were on the balance sheets in the prior year and still on the current year balance sheets.

Recommendation - The District should repay the interfund loans. Money borrowed on a short term basis from a fund should be repaid before the year end.

Response - The District will repay the interfund loans. Money borrowed on a short term basis from a fund will be repaid before the year's end.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amounts budgeted in the instruction, support services and other expenditures functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will monitor expenditures made and have a budget amendment done if we predict that we will be going over in any of the four expenditure functions.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted during our audit that the District wrote checks from the Student Activity Fund that were subsequently cashed to buy gift cards to give to students as incentive prizes for magazine sales. Sales incentives do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - We will discontinue the practice of gift cards as sales incentives.

Conclusion - Response accepted.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 resident students was overstated by 3.8 students. The number of students reported on Line 2 open enrolled out was understated by 8 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We have contacted the Department of Education and the Department of Management to resolve the situation.

Conclusion - Response accepted.

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Authorized Check Signatures - We noted during our audit that checks were written from the Special Revenue, Student Activity Fund and Enterprise, School Nutrition Fund had the Superintendent and Board Secretary signatures; however, the Superintendent was not designated to sign these checks. It was also noted that one check in our testing had only the Board Secretary's signature.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. The Board President may, however, designate an individual other than him or herself to sign checks on their behalf. If the Board President designates another individual to sign on his or her behalf, this designation should be noted in the District's official minutes for every time the Board President changes.

Response - In the future we will make certain the Board President or his/her designee and the Board Secretary are signing all District checks. If the Board President designates another person to sign on his/her behalf, we will note it in the District's official minutes.

Conclusion - Response accepted.

II-K-07 Financial Condition - The District had deficit unreserved fund balances of \$38,116 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District had deficit unreserved fund balances of \$216,961 in the Debt Service Fund. The District had a deficit undesignated unreserved fund balance of \$508,490 in the General Fund. The District also had deficit net assets in the governmental activities of \$648,989. We also noted during our audit of the Special Revenue, Student Activity Fund there were four accounts with deficit balances totaling \$392 at June 30, 2007.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and investigate available options to eliminate these deficits.

Conclusion - Response accepted.